THE NEXT STEPS IN TARIFF REFORM.

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What is the proposition which the advocates of tariff reform submit to the people of the United States? It is that they hear and determine the question whether the doctrine of protection is of continuing force, and, like the Monroe Doctrine, "applicable to every stage of our national existence;" or whether it is not now time, in our changed industrial conditions, that we sit down to re-examine the basis, the justification and the wisdom of that creed. They ask the American people if the maintenance of the highest protective tariff known to the nations of the earth is to be considered a permanent national policy, or whether they will not now decree a substantial reduction of such duties as shall appear to be no longer necessary to the development of any industry, and the removal altogether of certain taxes on raw material of our industries that raise the cost of production and hamper the efforts of our manufacturers to gain a foothold in foreign markets.

Times change and tariff reformers change with them. During three decades they have championed the cause of the mass of consumers against oppressive laws that bestowed the property of the citizen "upon favored individuals to aid private enterprise." They now make their plea in behalf of the American manufacturer, once the object, now the victim, of protection, whose margin of profit and of opportunity in the world's markets is sensibly diminished by two factors of cost, high wages and taxed raw materials, both peculiar to our industrial system, and of which only the latter is subject to cancellation. The advantage which low wages gives to his foreign competitor he must meet, he has

met, not by wage reductions, but by his genius for economical production, for the standard of comfort established by a high wage rate must be maintained. But the tariff policy which forbids or discourages an exchange of products with other nations and taxes him upon the very materials of his industry is, in the opinion of tariff reformers, unwise, injurious and dispensable. It hampers our industries, checks our commerce, retards the accumulation of national wealth, and diminishes the opportunity for the profitable use of capital and the regular employment of labor.

But when we are asked to indicate the next step in tariff reform we are confronted upon the one hand by a great party that fills quite the whole of the road with its imposing bulk and forbids that any step whatever in tariff reform shall be taken; while the other great party, under new leaders and devoted to other pursuits, has abandoned its ancient attachment to the cause of a tariff for revenue only. It is plain that the next step, like all the steps of the past, must be educational. The chiefs of party must be made to see the light of the new day, and the path to a broader market and richer opportunities must be brought plainly into the view of the great and small captains of industry.

The country has been amazed and made not a little ashamed by the demonstrations of devoted attachment to protection during the debate on the Porto Rican tariff. There are not many protectionists who have taken the long step that brings them near to the advanced position of the tariff reformers. But the President is one of them. It is our plain duty to give Porto Rico the benefits of free trade, said William McKinley in his last annual message: Portentous words, that to many an old-fashioned protectionist must have sounded like an apostate renunciation of the faith by the high priest himself. But the pews outdid the preacher in devotion to the outworn creed, and the Republican House and the Republican Senate have decided that free trade with little Porto Rico, our own adopted child, could not be

enacted without peril to American industries, the representatives of which converged upon Washington with the old appeals if not quite in the old numbers, to protest against the blow that threatened their ruin.

A blind and heedless devotion to protection, too, is exhibited in the strenuous opposition to the ratification of the reciprocity treaty with France, negotiated by President McKinley with the aid of some of his former fellow-workers in high tariff building. A protest against the French reciprocity treaty was recently sent out by the Association of American Knit Goods Manufacturers, in which it was declared that the treaty "aims a death blow" at the fashioned hosiery branch of the knit goods trade, and that "the protection now afforded is no more than is absolutely necessary to a fair protection to our industry." Yet I have the high protectionist authority of the Hon. Robert P. Porter for a counter-declaration, which shall be made in his own words:

"The reduction which the French treaty accords French cotton hosiery and knit goods will in no way harm American industry, because the average rate on all hosiery imported after reductions will still be 51½ per cent *ad valorem;* because upon the one largest class of hosiery imported from France there will still remain a duty of over 57 per cent, and lastly because upon all goods coming from Germany (whence we get nine-tenths of our imports of cotton hosiery and knit goods), and indeed from all other countries except France the average duty will still be 64.2 per cent *ad valorem*, and on some classes nearly 71½ per cent. Protection beyond this is unrighteous."

Emotions of unusual joy fill the heart of the tariff reformer, his pulses quicken, and hope kindles anew within him at the unexpected avowal that there is a rate, even though it be 71½ per cent, above which protection is unrighteous. If the axe of horizontal reduction were laid in that spirit, not at the root, but at the tops of the Dingley tariff,

the earth would be strewn with the brushwood of unrighteous surplusage from many lofty schedules, and the woolen schedule that kisses the very heavens with its audacious rates of 289 per cent, 235 per cent, 195 per cent, and 184 per cent, pierces the blue vault with one lone projection of 379 94-100 per cent and carries an average impost of 86 54-100 per cent, would emerge from the visitation in a truncated and lopped-off condition that would evoke loud cries from the beneficiaries of those sinful taxes.

I shall thrash none of the old straw of the long contention between protection and free trade. If the protectionist points to our immense and growing manufacturing interests that now supply four hundred millions of our exports and says, "This we have built by our tariff," his old antagonist will only ask with due humility that some slight credit be given to the natural resources of the country and the productive genius of its people. He will not forbear, however, to invite the attention of the defender of the high-tariff policy to the influence upon our industrial development and our export trade of the most conspicuous and most deeply interesting economic phenomenon of our day, the amazing multiplication of trusts and great combinations of capital. There is the vital fact in our present commercial situation, there is the greatest creative force at work under present conditions to change the methods and shape the future of manufacturing in the United States. More potent than tariff protection, it has built up industries into which protection failed to breathe the breath of life. Whether this new industrial system be permanent or transitory we cannot say, nor can we say whether the people will conclude that its advent is for good or for evil, but beyond all question, the concentration of capital, the formation of manufacturing corporations with large resources, able to command the highest business ability, to control their business at every stage of its progress, from the source of the material to the distribution of the product, to discard antiquated processes

and install the best modern machinery—we know, I say, that this concentration eliminates waste, obviates needless duplication of effort, substitutes the economy of the large operation for the high expense ratio of the little shop, and effects a substantial lessening of the cost of production. To the reduction of cost thus effected we owe more than to our protective tariff, the immense impulse of development in our manufactures in recent years. And it is this elimination of factors of cost that has enabled our manufacturers, in spite of the high rate of wages, in spite of tariff taxes that are no longer a help, but a burden, to overleap the wall that girdles us about and send their goods out into foreign markets, where they are selling at the rate of four hundred millions a year in competition with the manufactures of Great Britain, of France, and of Germany.

What is it that has quadrupled our production of iron and steel in twenty years—increasing it from 5,000,000 tons in 1880 to 20,000,000 tons in 1899? What is it that has caused our imports of iron and steel to dwindle from $53,000,000 in 1891 to $12,000,000 in 1899?

Was it the protective tariff? Seek the answer along that busy highway of lake and rail transportation that connects the Michigan ore beds with the Pittsburg furnaces and rolling mills, or in the Birmingham district, where the coal mines, the coke ovens, the ore beds, and the furnaces are so closely associated that almost the entire transportation charge of the operating companies is for switching engines. Nature in the South and the art of man in the North have reduced the cost of production to its lowest terms. It would be good for the soul of a protectionist who doubts the ability of the American manufacturer to take care of himself to study with care the wonderful array of labor saving and cost saving devices that has been created by the great corporations that convert the ore of Michigan into iron and steel near the coal fields of Western Pennsylvania. Their chain of control is unbroken—the mines, the steam shovels that lift the ore,

the cars, the very railroads, sometimes; the lake steamers, the docks, the smelters and converters, the rolling mills and steelworks, are theirs. No middleman's profit lessens their own, and from the beginning to the end of the chain, economic gain is skillfully secured, arising, says Mr. Taussig, "mainly from consistent planning of every stage, the nice intercalation of operations, the sweeping introduction from end to end of expensive and rapid-working machinery, continuously supplied under homogeneous administration with the huge quantities of material which alone make possible effective and economical utilization of the great plant."

If it is protection that has swelled our production of pig iron 422 per cent from two and one-half million tons in 1872 to eleven and three-quarter million tons in 1898, why is it that almost the entire increase, as Mr. Taussig points out, has been west of the Alleghanies or in the Birmingham region, the Middle States lying east of the Alleghanies, where the shelter of a protective tariff was most essential, and likely to be most stimulating, showing an increase of barely two hundred thousand tons? I asked an iron master the other day, a very large producer, if his business any longer needed the protection of $4.00 a ton on pig iron. "If it did," he replied, "I should not be now on my way to Europe to sell iron in England, France, Germany, Austria, and Italy." Whatever argument may be made to show that without the favor and encouragement of protective duties capitalists would never have ventured their money in the great plants, transportation facilities, and costly machinery that have produced these results, the truth is plain that our iron trade is now independent of the tariff. It can stand alone, and the business of iron and steel production is industrially fundamental. There is no large manufacturing business in which a low price of iron and steel is not reflected in reduced cost of production. I am speaking, of course, of normal trade conditions, not of the extraordinary condition that has

prevailed for some months past in which an iron and steel famine, due to an unusual volume of orders has had the effect of doubling prices.

I now wish to adduce further evidence of important industrial growth in the United States independent of the tariff, yes, in spite of the obstacles it opposes. The great increase in our exports of manufactures in recent years has resulted from two conditions, large production and low prices. In the first place, we have had surplus goods to sell; in the second place, our prices were satisfactory to the foreign buyer. Why were our industries so productive, why were prices so low?

Again the stern finger of fact points to the concentration of capital and ability as the chief cause of both phenomena. Concentration increases capacity and diminishes cost. An oversupply of the home market and an overflow into the foreign market follow necessarily. Our exports of manufactures in the fiscal year ending 1899 reached the unprecedented total of $338,667,794. Of this export of manufactures three-fourths in value were the products of industries dominated or controlled by trusts and combinations of capital. They tell us that it is the Dingley tariff that has raised our exports of manufactures to this great figure, amounting in the last fiscal year to 28.13 per cent of our entire export trade. Why not look the facts in the face? The tariff may glut the home market, but the tariff does not make low prices—there are no economies in it. It is saving of cost that makes the price, and the price makes the market.

Take another point of view. How many years is it since we began to congratulate ourselves upon the sudden prominence of manufactures in our tables of exports? Only during the last four years, and those are the years that have witnessed the formation of nearly all the trusts and combinations, the certificates of corporation of five-sixths of which bear a date later than 1895. Manufactured exports increased from $126,000,000 in 1875 to $183,000,000 in 1895—twenty

years to gain fifty-seven millions. For the five succeeding fiscal years the figures are: 1896, $228,571,178; 1897, $277,285,591; 1898, $290,697,354; 1899, $338,675,558; and for the current year ending June 30 next $400,000,000, according to the estimates—five years to gain $172,000,000. The trusts and the Dingley tariff came hand in hand, of like age, and devoted to like pursuits—the promotion of our productive industries.

An impartial world will judge which of the two has been the more effective and influential in doubling our exports of manufactured merchandise in four years. But it is a barren futility to point out these conditions unless we are willing to read what they teach and profit by the lesson. It is of no avail to lay stress upon the significant coincidence between the sudden growth of our export of manufactures since 1895 and the sudden multiplication of trusts and combinations in the same period, nor does it profit us to adduce that other highly significant piece of testimony, the fact that three-quarters of these exports are the products of industries under the dominance of associations of capital, unless we heed the answer to the next question. What do these things mean?

They mean that we have entered upon a new period in our industrial history, and that new economic conditions must be recognized in our laws and in our trade customs. Mr. Richard Olney in his striking and philosophical article on "The Growth of Our Foreign Policy" says that prior to the late Spanish war there were two distinguishing manifestations of our policy toward other countries: "One of them was the Monroe Doctrine, so called, directly affecting our relations with foreign powers. The other was a high protective tariff aimed at sequestering the home market for the benefit of home industries and, though legally speaking of merely domestic concern, in practical results operating as the most effectual of obstacles to intercourse with foreign peoples."

Out of this condition of aloofness and sequestration we have emerged so abruptly that few of our lawmakers and not many of our people have been able to adjust their thinking to the large requirements of the new condition. We have come suddenly into full relations with the world and have not had time to put aside our homespun manners or don clothing fit for such grand company. We are giving a lawn party but have forgotten to take down the sign "Keep Off the Grass."

Wherever in these years of trade expansion we have sold manufactured goods in other markets, we have displaced a foreign competitor, either one actually in possession or one seeking to take possession. The weapon with which we have overcome him is low prices. Quality and other things being equal, the lowest price commands the market. Our manufacturers have been able to make a low price through labor-saving inventions and reductions in cost effected by concentration of industrial forces. But what are our foreign competitors going to do, the manufacturers of England, France and Germany, whom we have robbed of a part of their market? Believe me, they will not give up the fight, they will do something to regain the lost ground. And on what they do hangs immediately the prosperity of our export trade in manufactures, and next the fate of our Dingley tariff. The foreign manufacturers will fight us with our own weapons—low prices. Skillful methods and a better understanding of the wants of their customers in the East, in Africa, and in South America, will serve them to some extent, but in the broad sense nothing will help them to reconquer the lost territory but the ability to undersell us. It is not for us to inquire by what economics the foreign manufacturer will command this ability. It is vastly more important for us to take thought about our own condition. Baffled by our old competitors using the arm of low prices to which they have long been accustomed, and by which they have, until recent years, kept us altogether out of many

fields, what shall we do? There is but one resource—we must make lower prices, we must undersell our competitors or lose the market. But how can we reduce prices?

The trusts and combinations have well nigh exhausted the resources of boundless capital, of human skill, and business ability in saving the last fraction of a cent of cost at every stage of every process they control. Their peculiar relations with railroads have enabled them to command the lowest living rates for transportation of their products to the seaboard. You cannot reduce an irreducible minimum. There are three other possible sources from which the potentiality of lower prices may be gained. They are, first, the pay roll—that is wages; second, the profits of capital, and third, the cost of material. The American manufacturer is most reluctant to seek to make himself whole at the cost of his men. He knows that wages are higher in this country than in any other in the world. He is painfully aware of the immense advantage that low wages, pauper labor, as we call it, confer upon his foreign competitor. But he knows, too, that well paid labor and a high standard of comfort for workingmen make for good citizenship and increase the demand for consumption in our home market. A reduction of wages is the last resource against business loss and then only as the alternative to shutting down the works.

But there is the profit account. I need make no argument to convince you that the manufacturer will turn with no great gayety of heart to the expedient of reducing his own dividends. The changeless principles of human nature and the powerful instinct of self-preservation stand opposed to that so long as any other way is open. There is another way, the third resource—reduction in the cost of material.

In that anxious moment of his quest for relief, there rises upon the vision of the hard-beset American manufacturer the towering heights of the Dingley schedules, not glory crowned, not glistening in the sunlight of prosperity, not singing Memnonian psalm tunes of cheer in his complacent ears,

but beetling, black, disastrous; obstacles to his progress, the menace of his ruin. God help the protective tariff when the American manufacturer shall confront it in that terrible mood. But as I wished to make the suggestion of the remedy follow immediately upon the diagnosis of the disease, I have omitted one stage in this process of economic development—the dark and saddening stage of industrial depression, waste of capital, stagnation, and hard times that follow inevitably upon the loss of a market and the cessation of a demand. When our manufacturers begin to find themselves in turn displaced in their new-found foreign markets by cheaper goods made in Germany and elsewhere, they will not at once go to Washington to get the tariff reduced. Hope springs eternal, and hoping for a favorable turn, they will continue to run their mills on full time and to pile up unsold goods in the warehouses. Overproduction has one inevitable result—business loss. Let any man with the material of the computation at his command attempt to picture forth the condition of trade stagnation, financial depression, contraction of credits, and business disaster that would ensue upon the cutting off at the seaboard of any considerable part of the annual outflow of four hundred millions of our manufactured goods.

Through this stage of industrial gloom we must pass in the nature of things before our producers come to understand what has hurt them, what hampers them, and puts them at a disadvantage in the struggle for the possession of the foreign market. Then, at length, when the interests that once demanded protection and made the tariff shall appear imploring relief from its burdens and asking for freedom to buy where they must sell, in the broad markets of the world, then we shall be ready for the next step in tariff reform, and it will be quickly taken.

If apprehension is expressed that industries laboriously built up by the favor of protection until they have come to possess the semblance of a vested right to a duty approach-

ing or exceeding the unrighteous level of 71 per cent will be ruined by a free trade foray on the tariff, I reply that no uneasiness need be felt. The influence of the protectionist sentiment is still too powerful at Washington over both parties to permit any abrupt and ruthless demolition of the tariff shelter. The danger is indeed of a too great reluctance, of a reform too deliberate in its movement. Against reductions demanded for the support of manufacturing interests that have shown energy and capacity for development, that have made them important contributors to the national wealth the plea in behalf of imbecile helplessness will not and should not avail. It is protection that is now demanded, protection for the American manufacturer against oppressive conditions that threaten his exclusion from the foreign market, upon which his prosperity depends; protection for the American workingman against the reduction of his wages, a calamity that will surely befall him if it be not averted by provisions made in other ways for the manufacturer's relief. How can the experienced protectionist campaigner, who, though grizzled, bronzed and scarred, has within his bosom a heart that beats warmly for our struggling industries and for the American wage-earner, how can he resist the insistent appeal of his own protégés for needed help? The growth of our manufactured exports, whatever it may argue for the past of protection, destroys the argument for its future, for it demonstrates that we have established for the products of our industries a parity of price with foreign products. We are equals, and an equal demands no favors.

He has the right, however, to demand, and he will insist that his friends do not wantonly hamper him in his contests. The American manufacturer must have for his own protection, in his struggle with foreign competitors, the freedom to buy the materials of his industry, not only in the cheapest market without artificial additions to cost, but he must have perfect freedom to choose his market. The skillful merchant

is equipped with modern facilities which enable him to know from hour to hour the quotations in all the great markets of the world. He might as well be without the facilities if he cannot have freedom to use for his gain the information they bring him.

Those schedules of the tariff that put an added cost upon crude articles entering into the processes of manufacture, and on articles partly manufactured, that are the raw materials of other manufactures which give profitable employment to labor, are the lamb of the sacrifice. Upon them the manufacturer is going to ask that the hand of the reviser be laid. The people will ask somewhat loudly that it be laid also upon every duty in any schedule giving protection to a greedy trust or combination of which advantage is taken unduly to raise prices.

There need be no fear about the revenue. That old cry has lost its potency since the business of the country has demonstrated its capacity to yield three hundred millions of internal revenue, a tribute which it could increase without complaining of the burden; while the judicious reduction of the tariff schedules to the revenue point would provide the treasury with abundant income from customs derived from luxuries and those classes of imports upon which a just system of taxation permits a moderate impost.

But the first step, the step immediately before us, is a completion of the educational process. The manufacturer will finish his education before the statesman and the politician are out of the primary class. Hard necessity will be his teacher, and the pupil will learn with a surprising rapidity when his attention has been once fixed upon the instructive page. Some precocious scholars are even now ready for graduation.